Stock Markets

MMTLP: The Wild Saga Of The Meme Stock That's Left Thousands Of Shareholders With Nothing

By **Brandon Kochkodin** Forbes US Staff Apr 27, 2023, 7:40 AM

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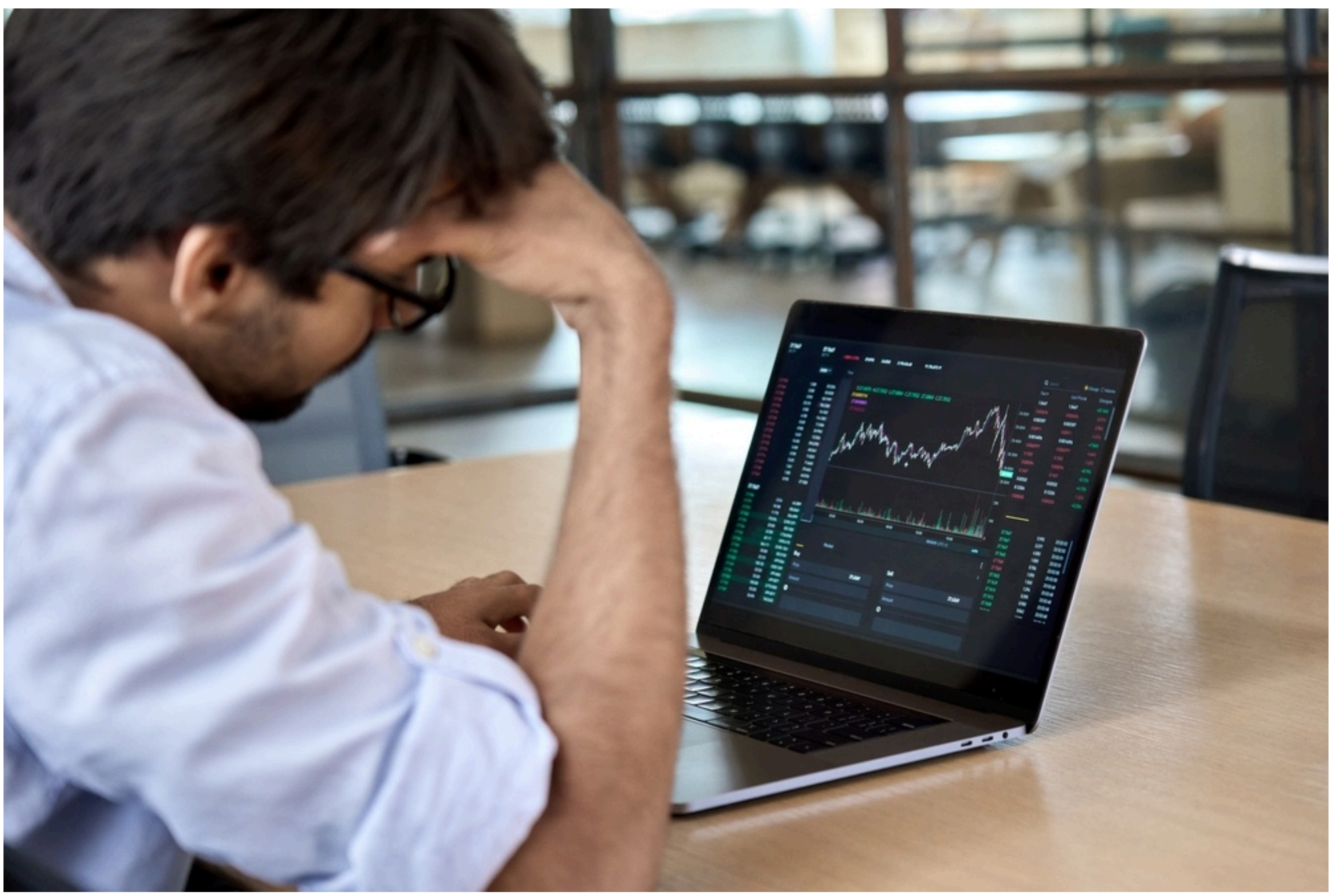

MMTLP was odd from the beginning. It was born in December 2020 with the merger of Canadian tech company Metamaterial and the Plano, Texas-based Torchlight Energy Resources. Image by Ground Picture / Shutterstock.com

market manipulation and origins in the stripper-pole business, a $3.3 million tract of West Texas land estimated by its owner to hold $9 billion of oil, a CEO who says he wasn't aware that the stock had begun trading, a security that went for $12.26 a share in November that's worthless today, the involvement of Congress, conspiracy enthusiasts that include a woman on YouTube who dresses in a bird costume, and Jon Stewart of all people on a livestream using the example of MMTLP to air grievances against the same stock-market regulators that torment the bird lady and her flock.

As a stock, however, MMTLP offers only heartache: after the nongovernmental Financial Industry Regulatory Authority halted MMTLP trading in December, tens of thousands of investors are discovering they may be stuck with little more than a meme.

Now, as they gather on social media to plot a path to recouping their losses, MMTLP shareholders have pinpointed the villain: FINRA, whose trading-suspension order bailed out investors who bet against the stock without owning it — a.k.a. naked short-sellers — who'd otherwise be forced to pony up. However, like everything else about MMTLP, there's a difference of opinion on even that.

"It's pretty clear to me that people have been swindled," James Angel, a professor at Georgetown University's McDonough School of Business who's been following the MMTLP saga and owns shares, told Forbes. "But it's not clear to me who did it."

The upshot was a security backed by an optimistic estimate of West Texas oil reserves that was never supposed to trade being bought up on an over-the-counter marketplace by investors who had beef against short-sellers and a regulatory agency that ended up calling the whole thing off, circumventing possible panic selling but leaving shareholders with nothing.

MMTLP was odd from the beginning. It was born in December 2020 with the merger of Canadian tech company Metamaterial and the Plano, Texas-based Torchlight Energy Resources. Torchlight started life in 2010 as Pole Perfect

The marriage to Metamaterial was more transactional than corporate synergy. Metamaterial got Torchlight's coveted spot on the Nasdaq exchange and 75% of the new company, Meta Materials (ticker: MMAT). Torchlight's shareholders received a 25% cut along with something special: a novel mechanism for spinning off the Torchlight assets into an untradeable security that short-sellers couldn't get their grubby mitts on. This financial innovation was later dubbed MMTLP.

MMTLP wasn't supposed to be a stock. Rather, it was meant as a placeholder for a future dividend. Where the money for that dividend would come from wasn't immediately clear. It could have been a cash payment if Meta Materials found someone willing to buy Torchlight's Orogrande drilling rights. Or, without a sale, it could morph into shares of a new company.

What was obvious from the beginning was that this special dividend wasn't supposed to trade. Meta Materials said as much in a July 2021 SEC filing.

But guess what? In one of the surprising lessons that MMTLP has taught us, it's possible for a security to trade on the OTC market without the involvement of the company. (Different rules govern marketplaces like Nasdaq and the New York Stock Exchange, according to securities lawyers who spoke with Forbes.) If a security, in this case a preferred dividend share class, has a nine-digit identifying number called a CUSIP, a market-maker can register it with the OTC and begin selling.

In October 2021, that's what happened. It came as a shock to Torchlight's former CEO, John Brda, who told Forbes he was caught off guard and was less than thrilled with the turn of events. "MMTLP was never designed to trade," he reiterated to Forbes.

For the next year, shares of the never-designed-to-trade MMTLP hovered in the range of $1.50. But in October, MMTLP's price skyrocketed. It topped out at $12.26 on November 22, implying a market cap of over $2 billion. Traders had caught wind of Meta Materials' strategy. MMTLP shares would soon be

believed there were tons of them. Still, the reasons for this sudden uptick are, like just about everything else in this story, a matter of debate. What's not in dispute is the controversy kicked up by subsequent events.

In November, Meta Materials announced that the distribution of MMTLP shares to Next Bridge had been approved by its board and would take place on December 14, pending FINRA's okay. That approval came on December 6, but in a bizarre twist, FINRA's announcement left uncertain the date for the cutoff in MMTLP trading. There was widespread confusion about whether MMTLP would continue trading until December 12 or halt on December 8.

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interpretation.

Then, on December 9, FINRA issued a rare "U3" trading halt due to what it called an "extraordinary event." The dramatic intervention effectively stopped trading of the stock forever. Shareholders accused FINRA of orchestrating a bailout for short-sellers and broker dealers.

FINRA has never explained the "extraordinary event" behind the halt, but a simple reason could be the communication breakdown: FINRA realized that brokers and their customers didn't understand its message about when trading on MMTLP would stop. Usually, stockholders need to own a security for a certain period of time before becoming eligible for a dividend, and in order to enforce that, FINRA decided to cut off trading rather than have some investors suddenly left out of the distribution of Next Bridge shares. And since MMTLP was about to disappear, if people didn't get Next Bridge shares, they'd be left with nothing at all.

The irony was that traders didn't want Next Bridge shares. They wanted two additional days to offload their MMTLP shares before they got saddled with Next Bridge. Suspicious shareholders, now owners of a stock no one wants, claim that because of the proliferation of naked short-selling and counterfeit shares, FINRA knew bets against MMTLP couldn't be covered, and the U3 halt saved short-sellers from having to pay through the nose.

FINRA, a stern referee, stuck to its story that it wasn't protecting short-sellers because the short positions would simply migrate to Next Bridge. But the MMTLP shareholders weren't easily convinced. In their eyes, Next Bridge would be a private company, immune to the predations of short-sellers. FINRA and a cadre of securities lawyers consulted by Forbes, however, disagreed, even if Next Bridge wouldn't issue publicly traded shares.

"It's the very definition of a public company," a FINRA spokesperson told Forbes. "There's no question."

in an email. "It's very common to spin off a subsidiary or part of a business to stockholders via a distribution, sometimes in connection with a merger. But in every case I'm aware of, the spun-off shares are publicly traded either immediately or soon after the spin-off. I cannot recall a situation where, as here, essentially the entire business is being spun off to public shareholders, with the resulting shares being non-public."

thinking of launching a one time, limited edition shorts-in-flames this summer. If we get 500 likes on this post we may actually do it :-) #getyourshorty #BBQseason #SundayRoast

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The financial system is a black box, its inner workings obscure to the uninitiated, and as we discovered during the meme-stock madness of 2021, the mysteries only fuel the conspiratorial fire. But there was so much that FINRA couldn't legally say.

comment.

In March, FINRA made its first public comment on MMTLP by publishing an FAQ on its website. Shareholders were unimpressed, branding the post “disingenuous and intentionally deceptive.” FINRA’s cause wasn’t helped when it had to correct a disputed fact about the registration of MMTLP shares. To make matters worse, FINRA admitted to a coding error that led to the MMTLP symbol’s deletion being delayed by more than two months.

MMTLP shareholders have turned to lawmakers for answers, borrowing a page from the playbook of another meme stock, GameStopGME -1.8%. At least two members of Congress, Republicans Pete Sessions of Texas and Bill Posey of Florida, have written letters inquiring about the situation.

Dave Lauer, a member of FINRA’s Market Regulation Advisory Committee, has gone public with criticisms of the organization’s handling of the matter and called for “radical transparency.” Lauer was a guest on Jon Stewart’s livestream when Stewart took a question about MMTLP from a viewer. The host of “The Problem with Jon Stewart” appeared to know all about the trading halt and the ensuing controversy.

Perhaps the most baffling aspect of the MMTLP saga is the irony of traders touting the supposed treasure locked beneath the West Texas soil while desperately wanting FINRA to let them dump the stock. If they truly believe in the value of the Orogrande assets, why the eagerness to sell? It appears that for some of them, the assets were never the main attraction — the true prize was the prospect of sticking it to the short-sellers. Meanwhile, there will be lawsuits, but no more trading of MMTLP. And it’s a fat chance that any shareholder will ever lay their eyes on the blue sheets.

Maybe it’s a simpler tale: the shareholders were simply duped. As Jeff Davies, the oil and gas veteran who filed a whistleblower report on Torchlight, told Forbes: “It’s easier to fool people than it is to convince them that they’ve been fooled.”

I'm a graduate of the University of Miami. Before joining Forbes I worked as a reporter and editor at Bloomberg where I covered everything from sports to how negative rates impacted the Black-Scholes model.

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